

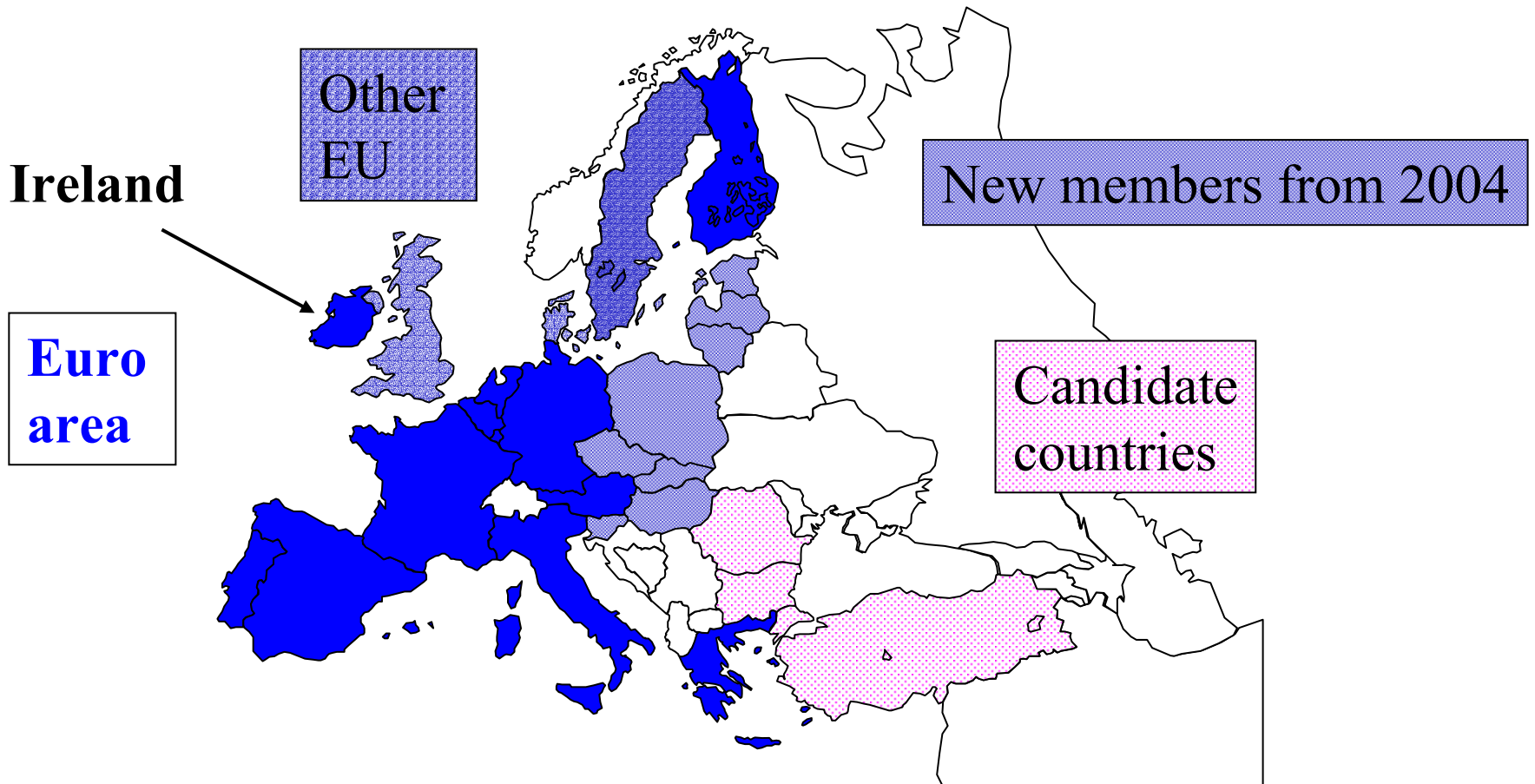
# **The Celtic Tiger**

## **The Economy of Ireland 1922-2000**

Dr. Mark A. Wynne

Assistant Vice President & Senior Economist

# Ireland & the EU



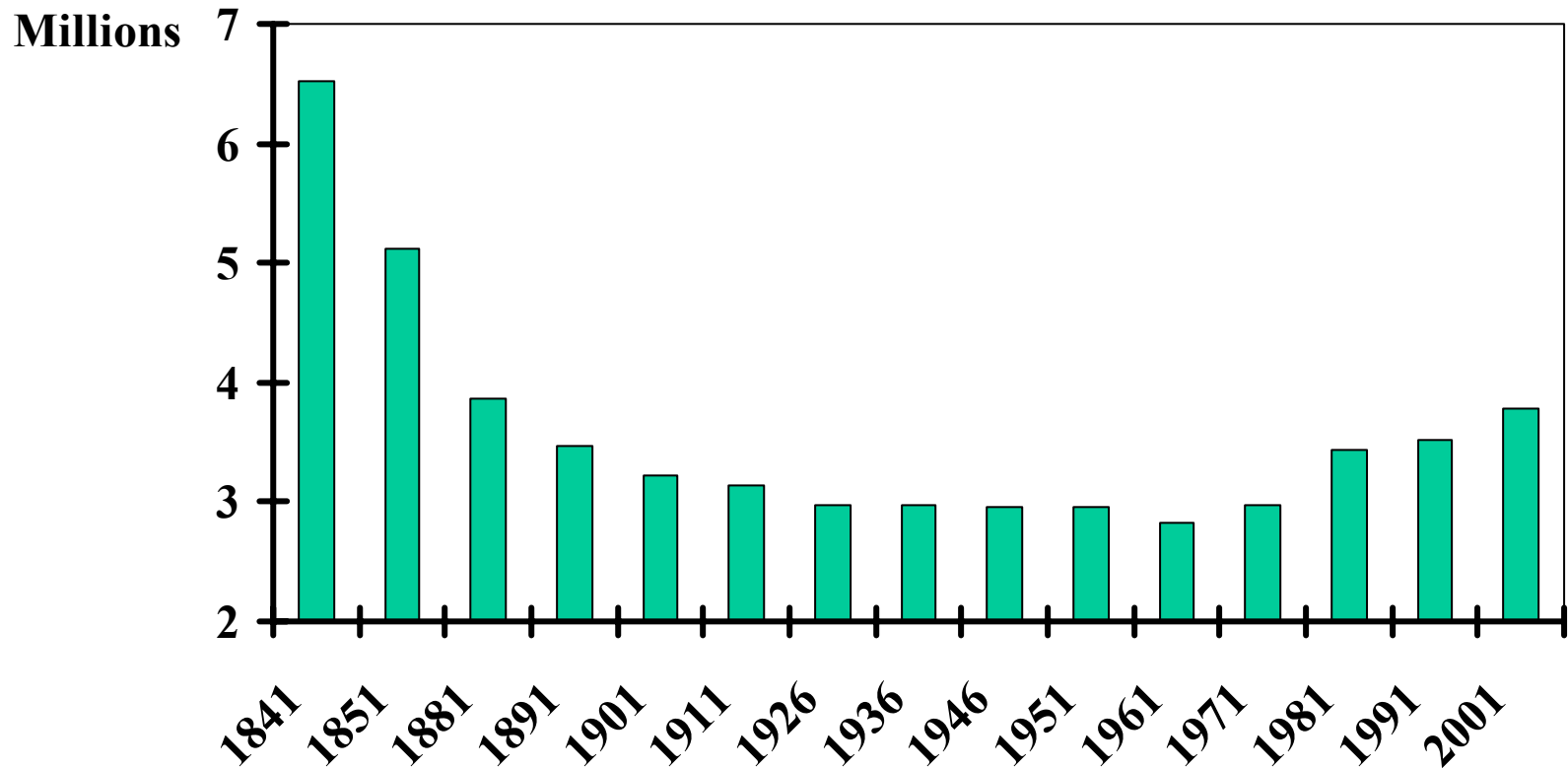
New 2004 members not shown: Malta and Cyprus

# 1922

- Primarily agricultural
- Orthodox policies
  - fiscal responsibility
  - currency board
  - comparative advantage
- 1930s: retreat inwards (“Sinn Fein”)

# Population of Ireland

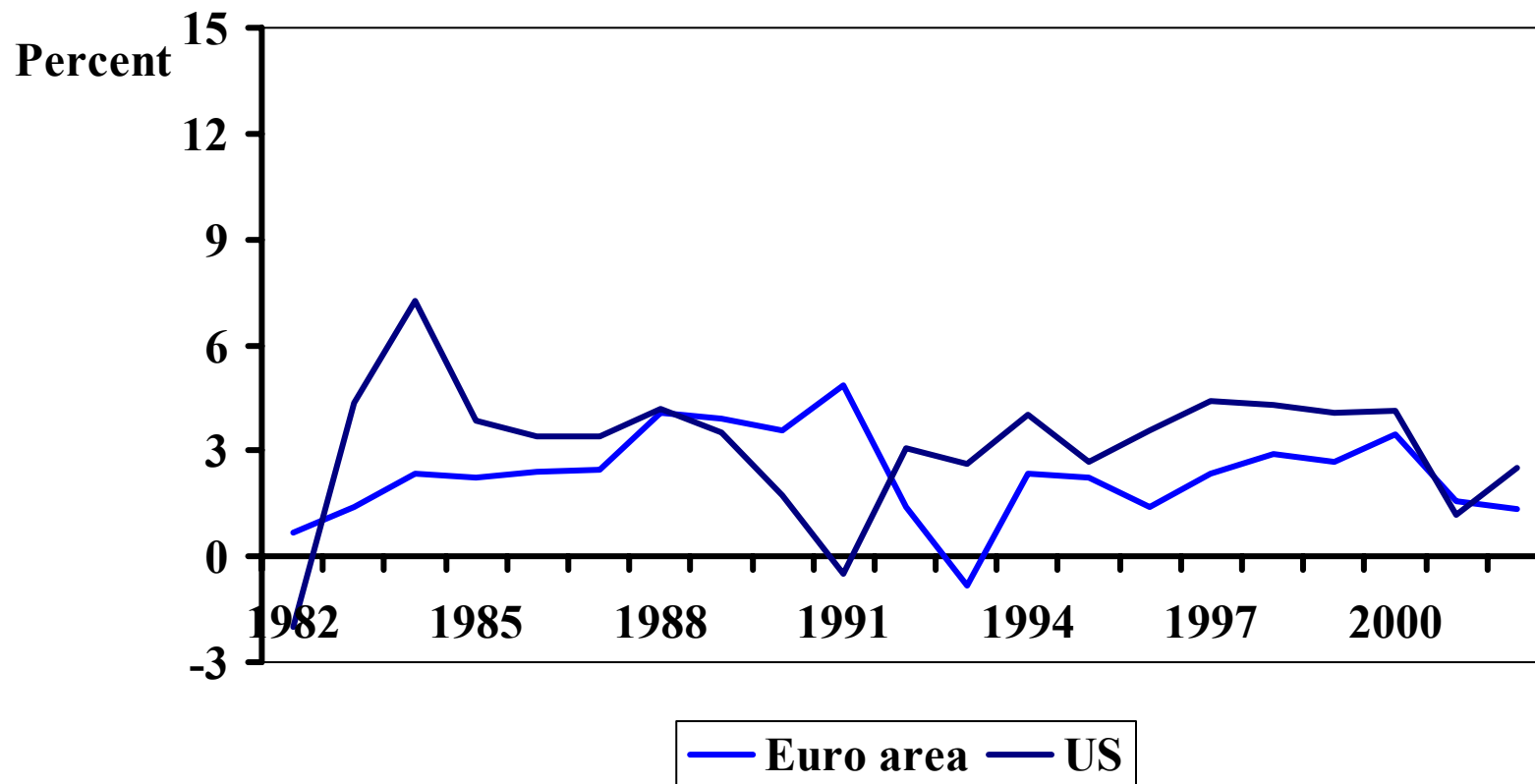
## 26 southern counties



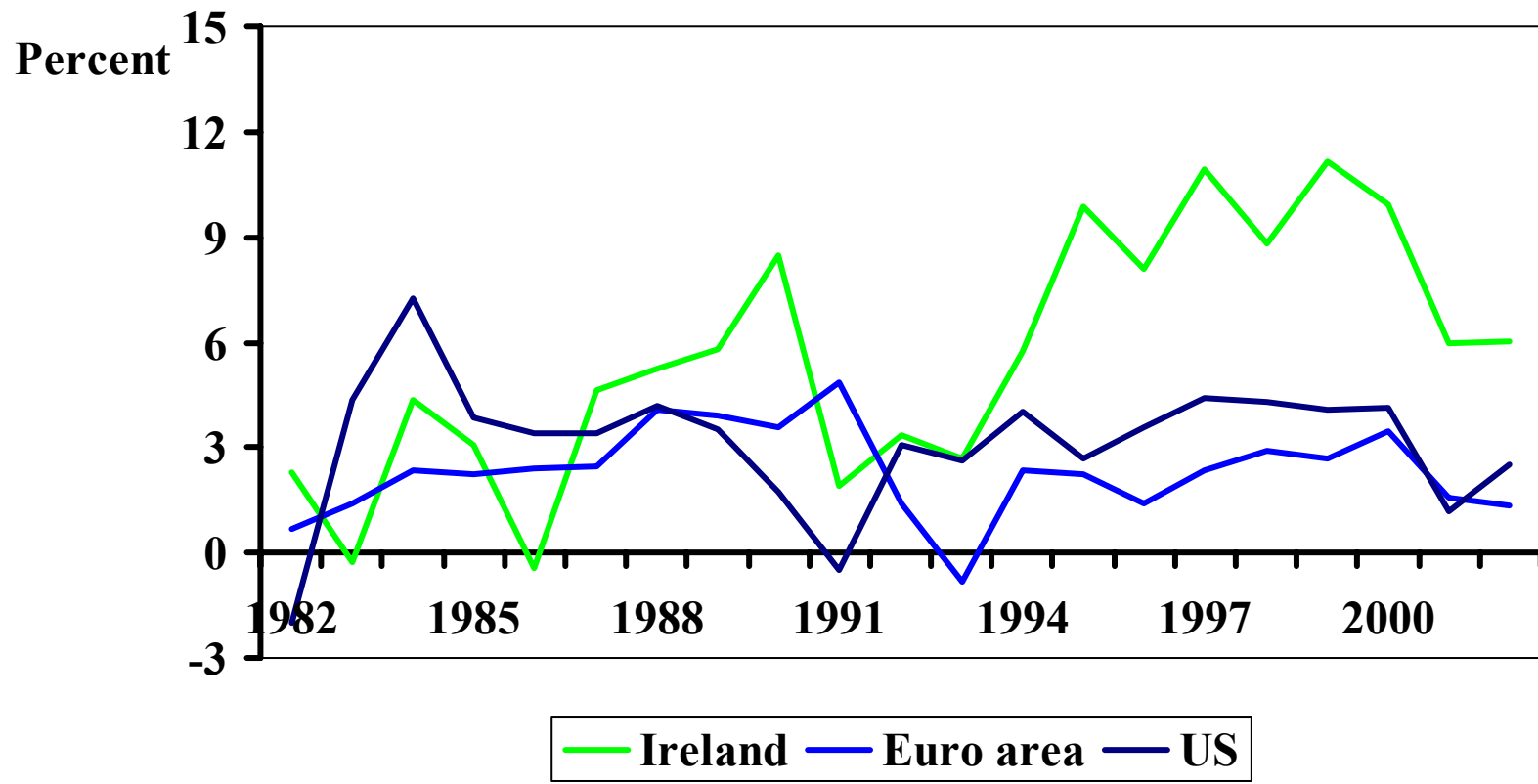
# Liberalization

- 1958 - publication of *Economic Development*
- 1965 - Anglo-Irish Free Trade Agreement
- 1973 - Ireland joins EEC

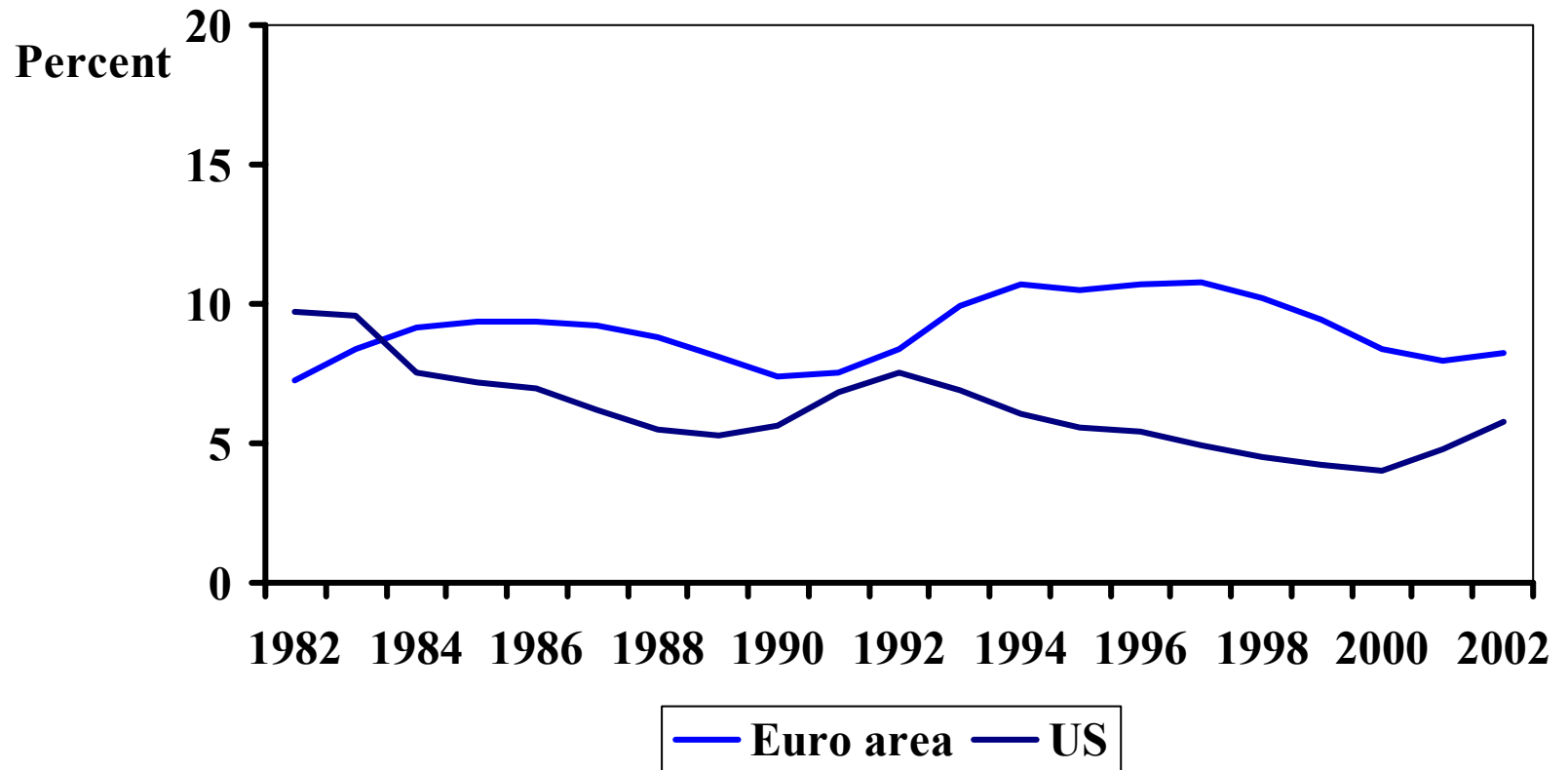
# GDP growth



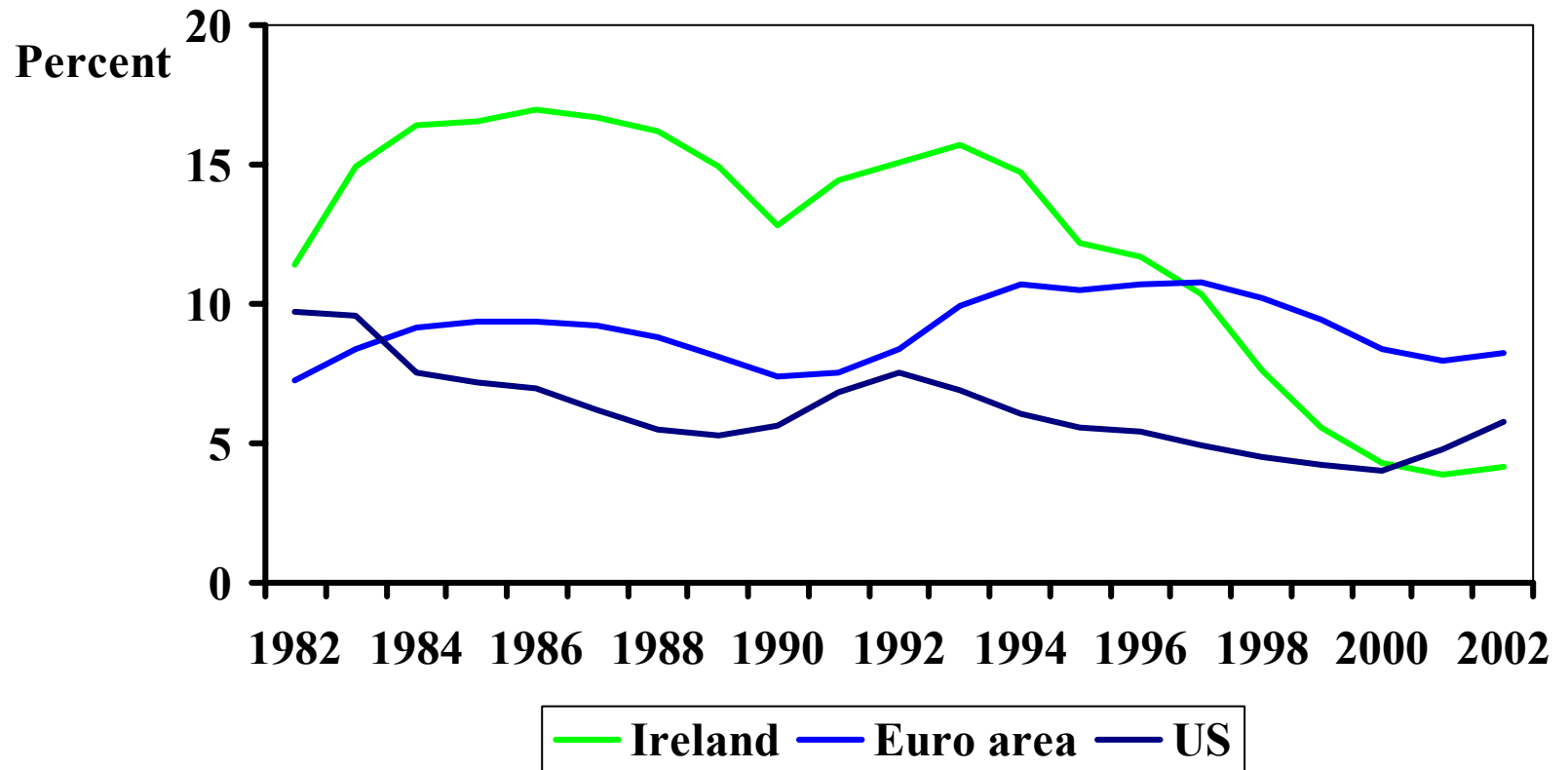
# GDP growth



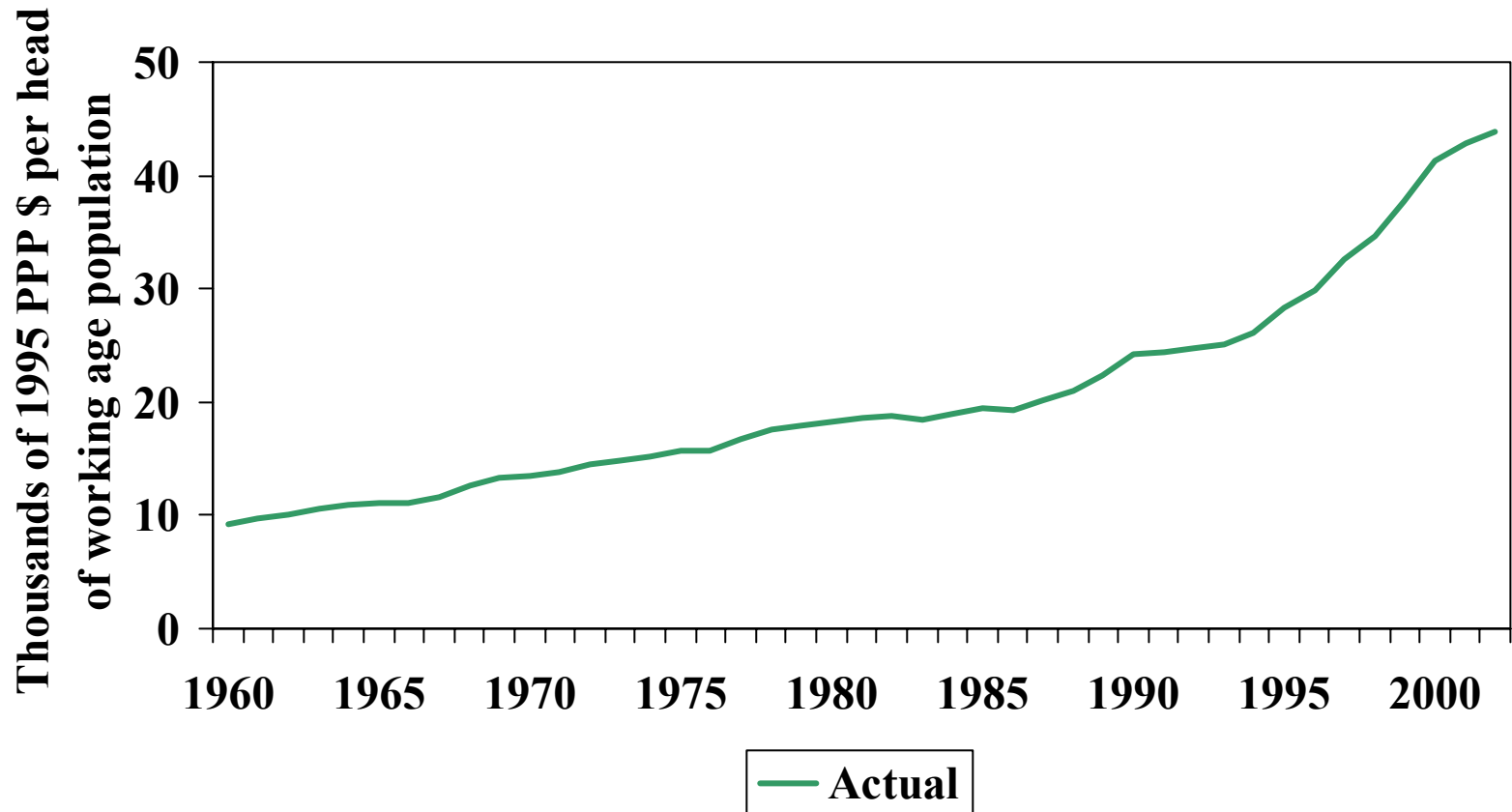
# Unemployment rates



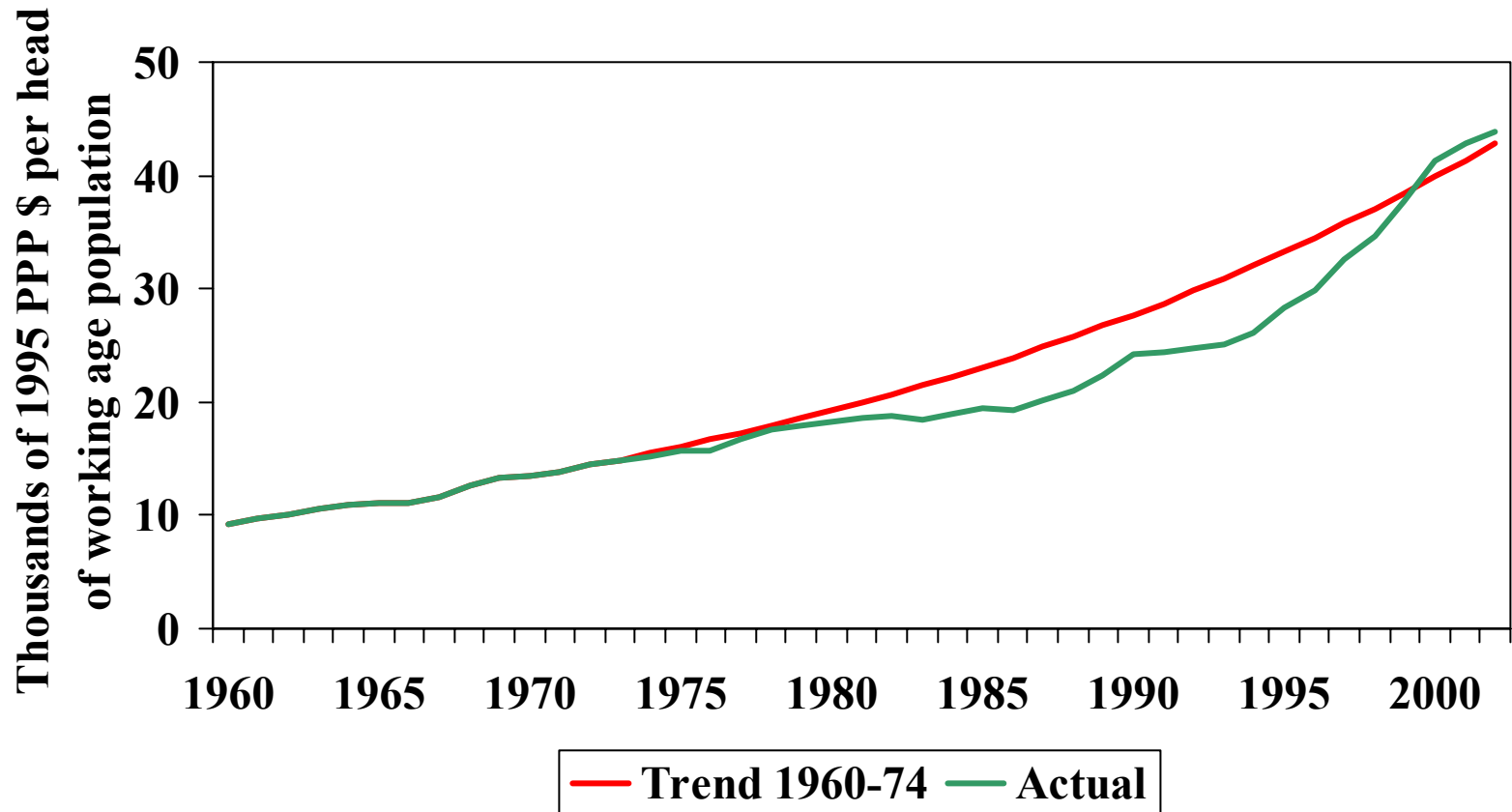
# Unemployment rates



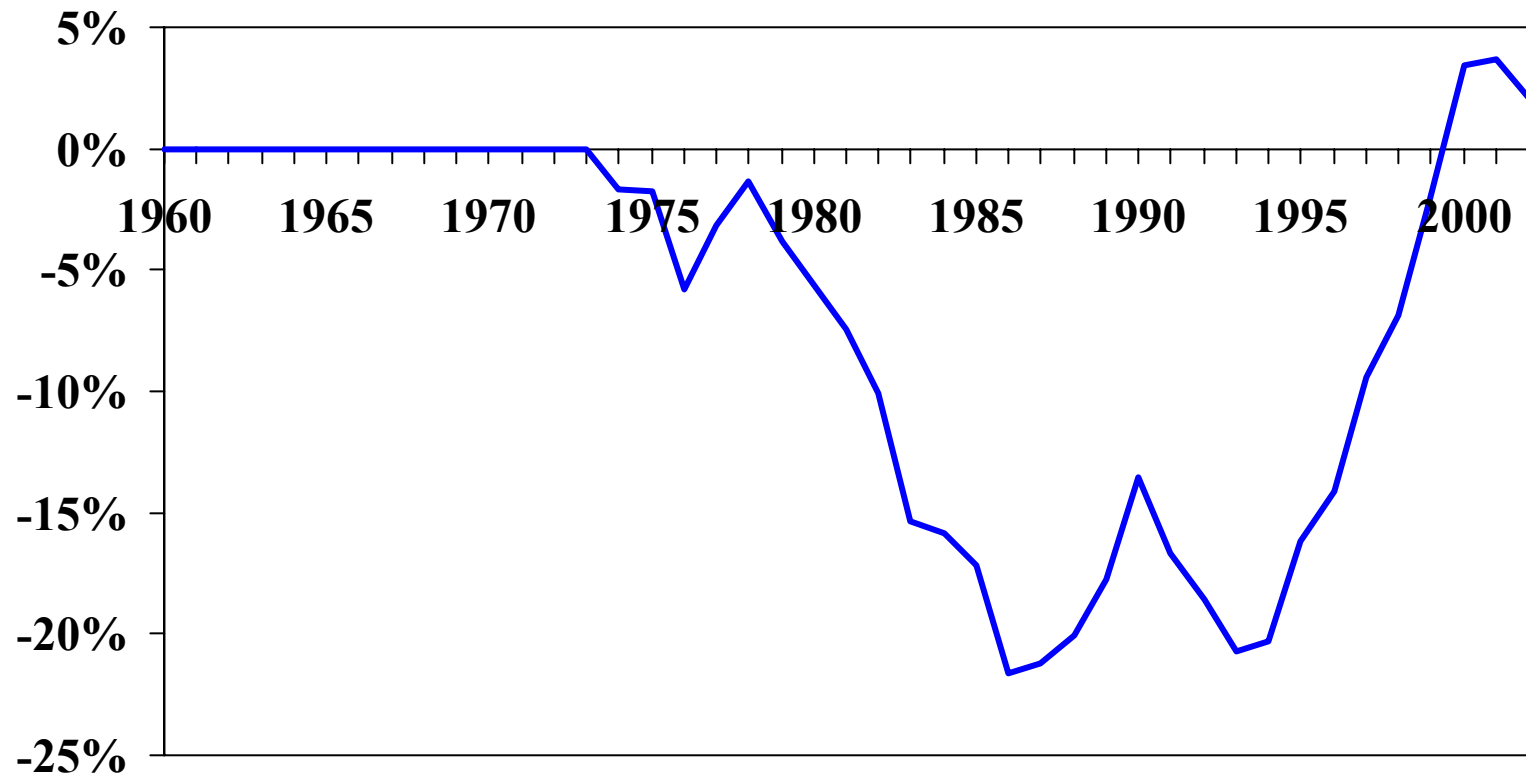
# Ireland's Great Depression?



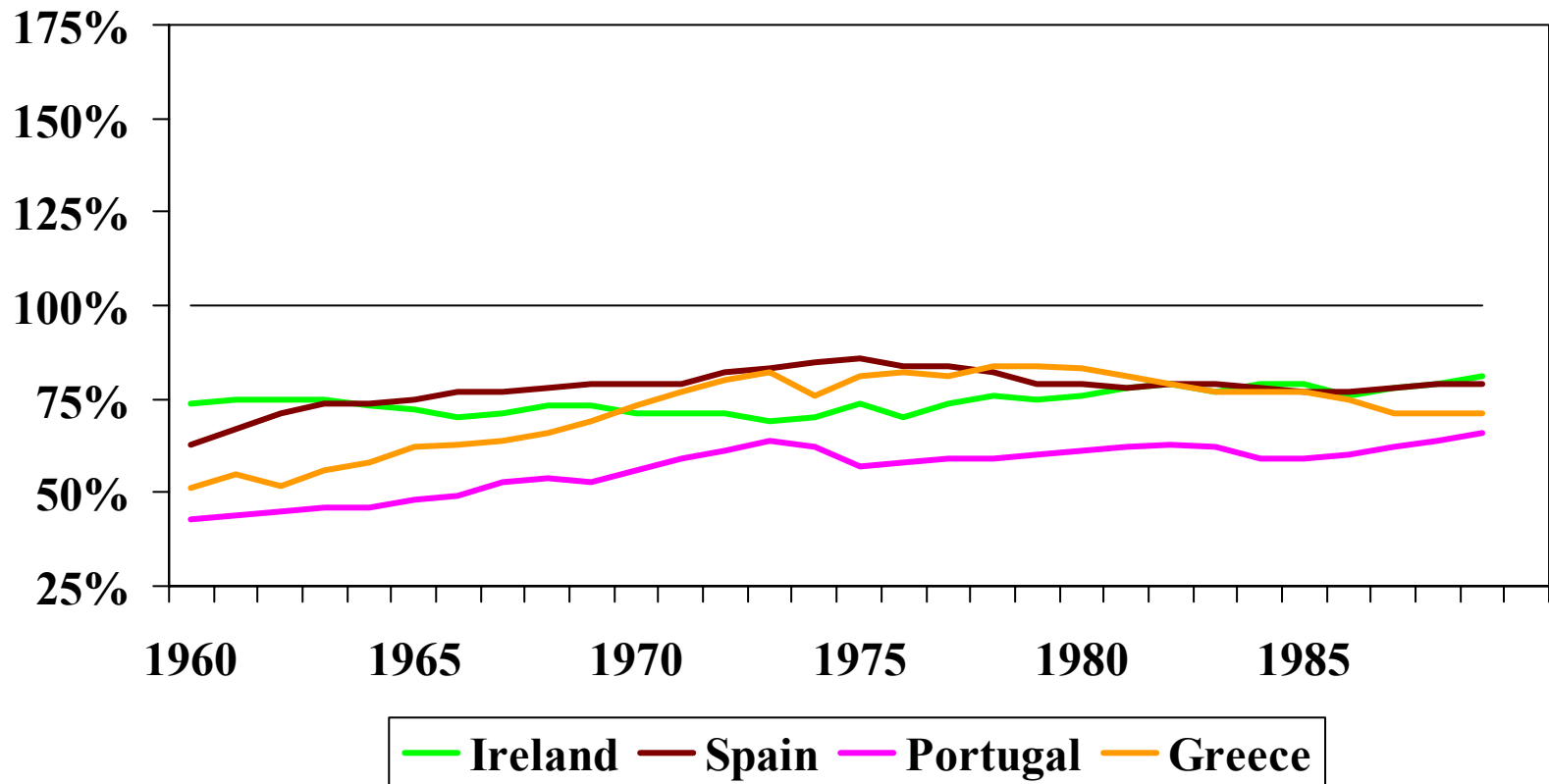
# Ireland's Great Depression?



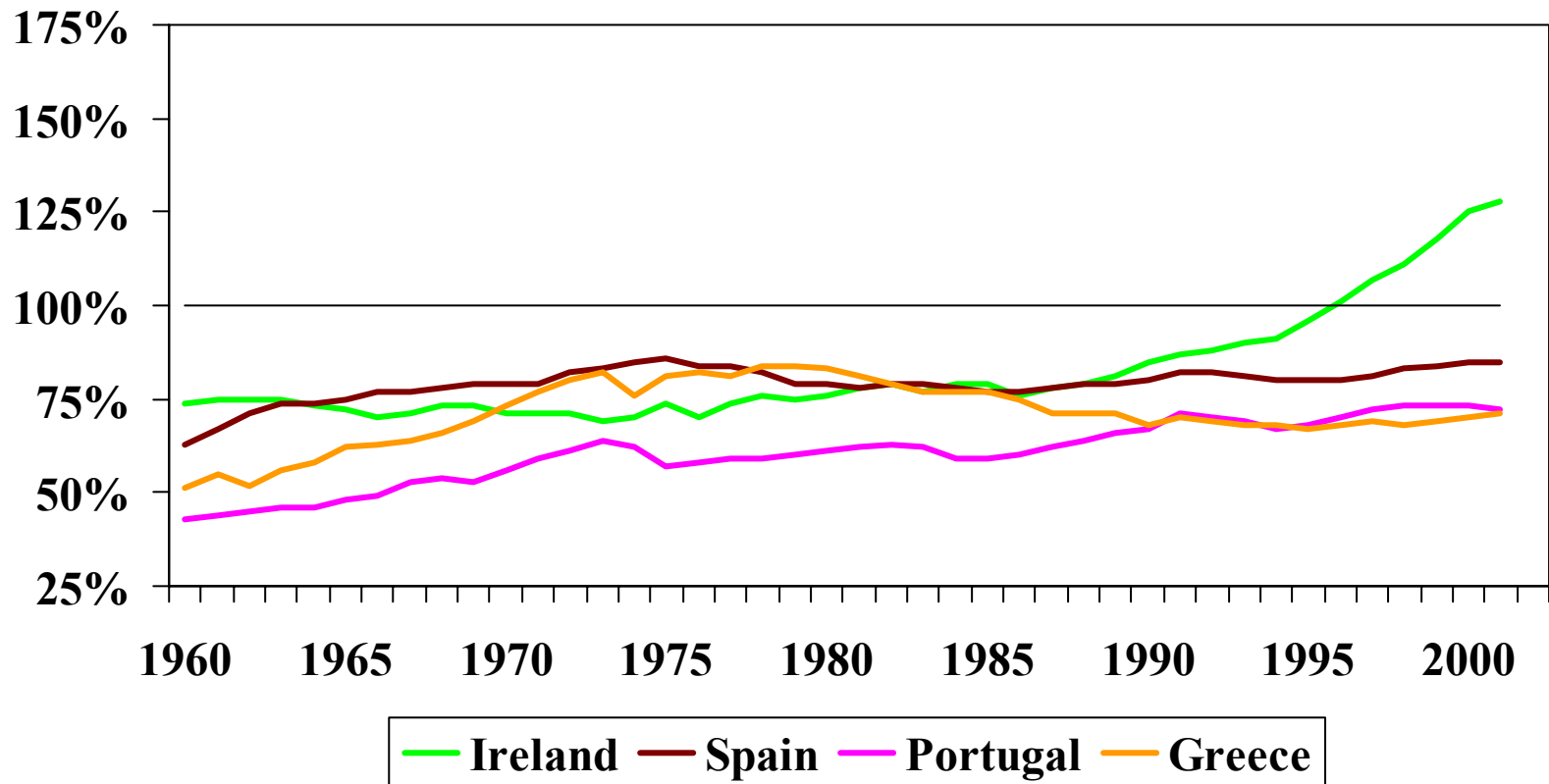
# Deviation from trend



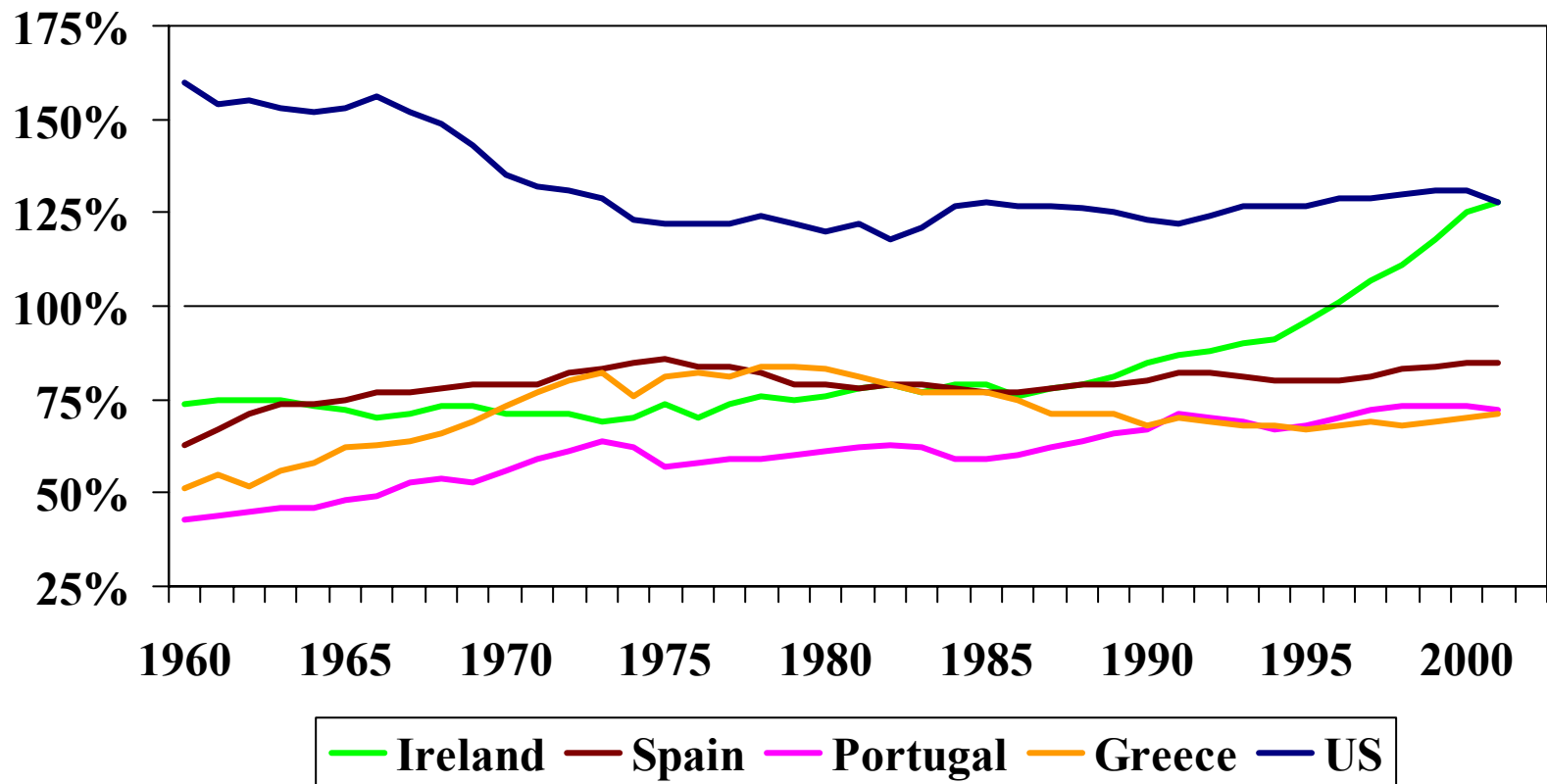
# Real GDP per head of working age pop as % of EU average



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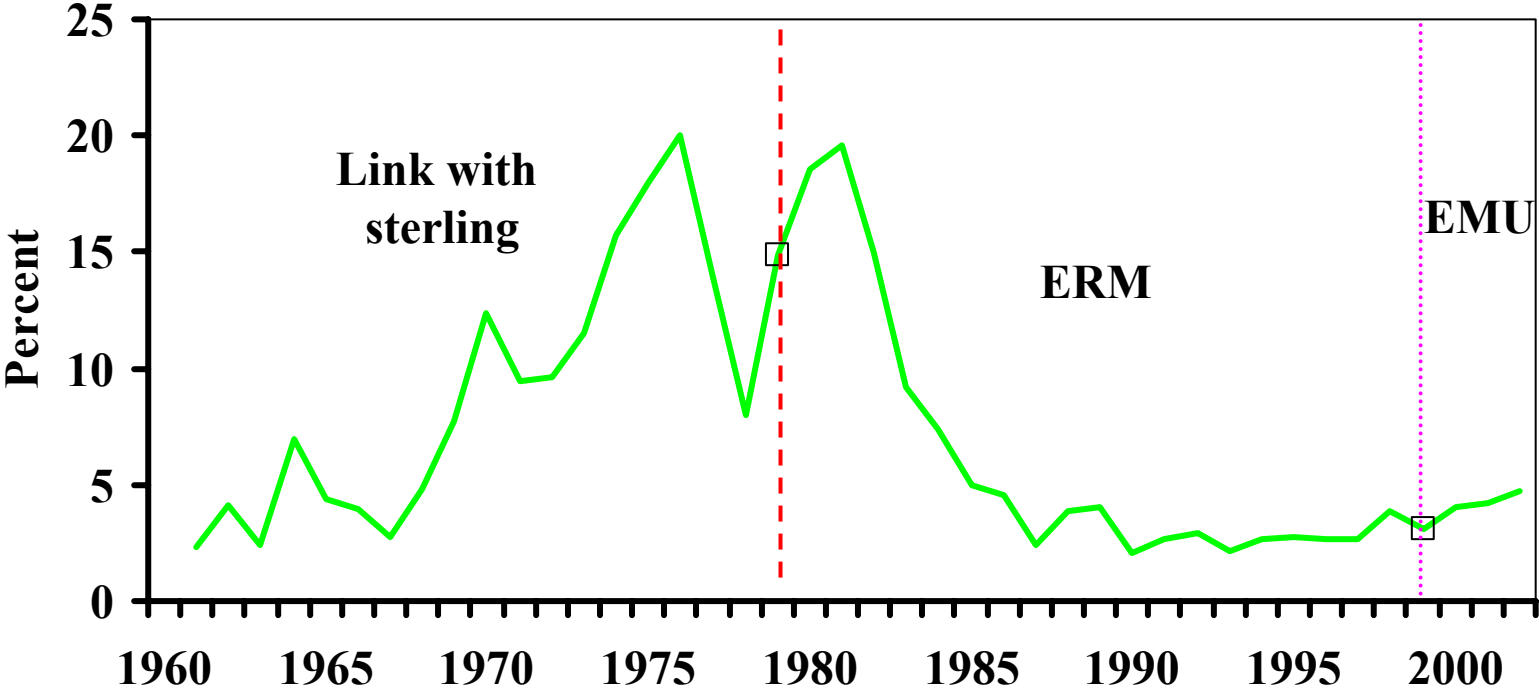
# Explaining the emergence of the Celtic Tiger

- Catching up
- Rebound from recession of 1970s & 1980s
- Membership of EEC/EU
- Fiscal consolidation
- Foreign Direct Investment
- Greater economic freedom

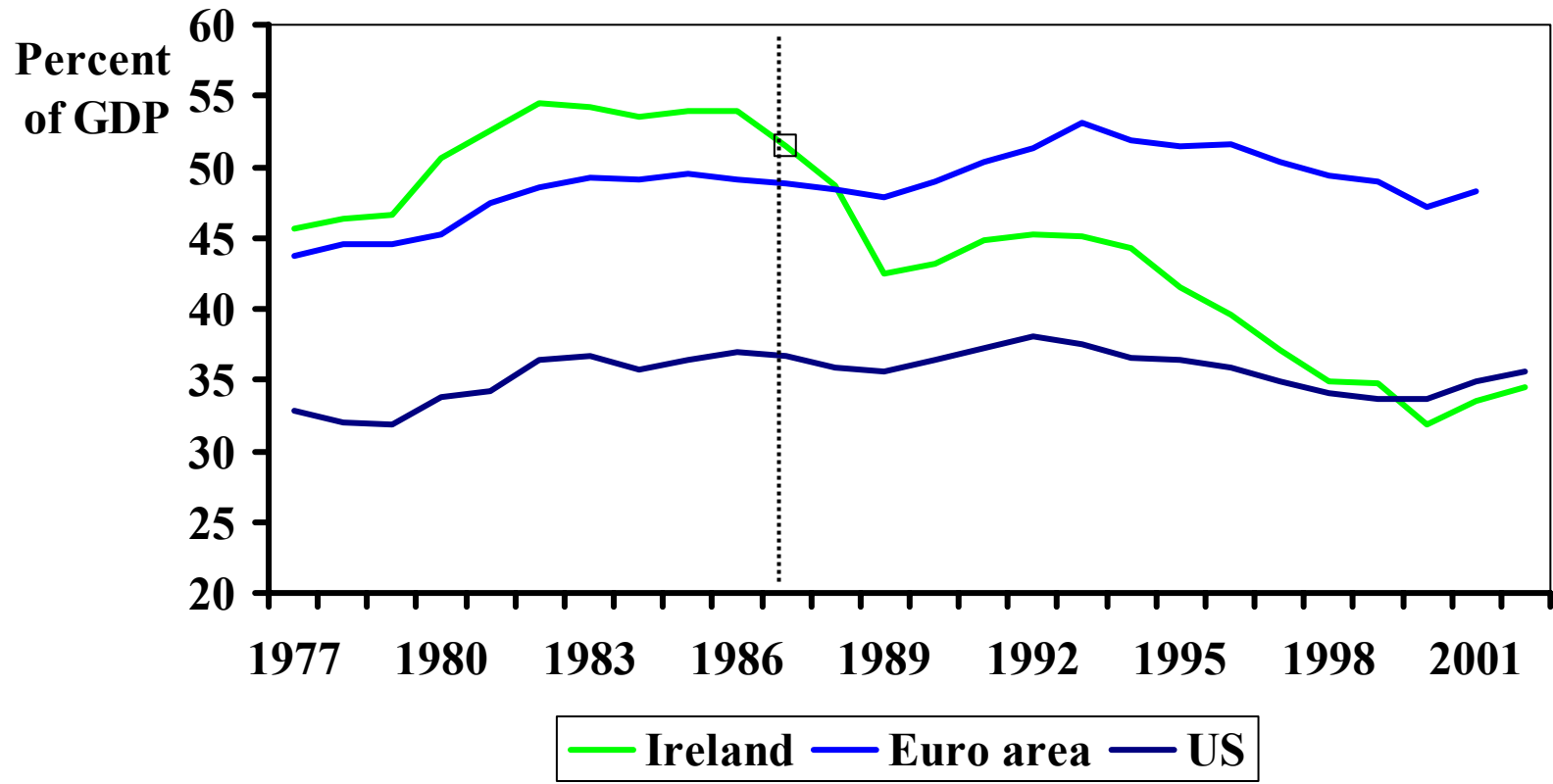
# Monetary regimes in Ireland

- 1826-1922: Political & monetary union with Britain
- 1922-1928: “Dollarized” economy
- 1928-1979: Currency board
- 1979-1998: Exchange rate peg
- 1999: EMU

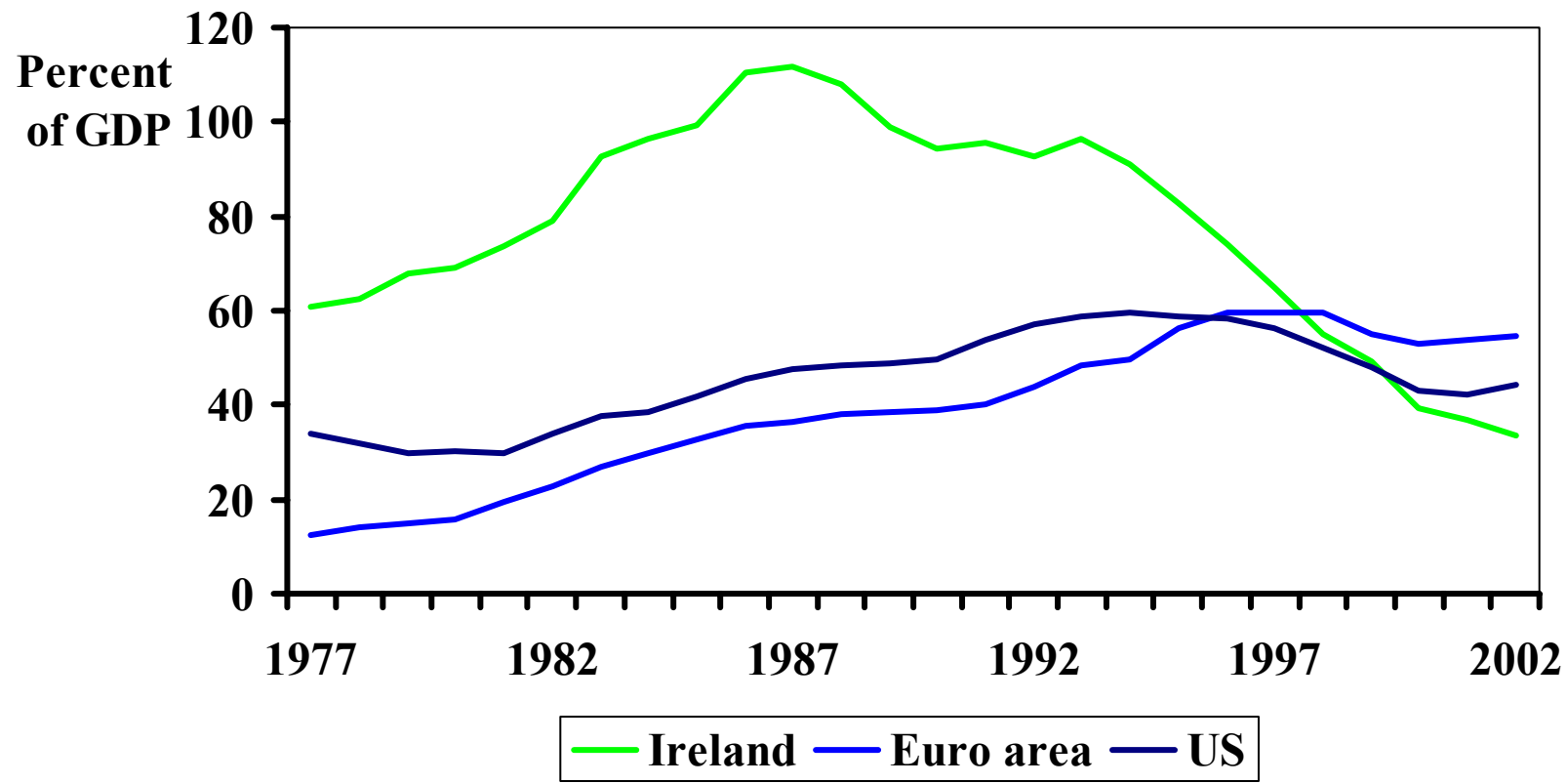
# Inflation



# Government spending



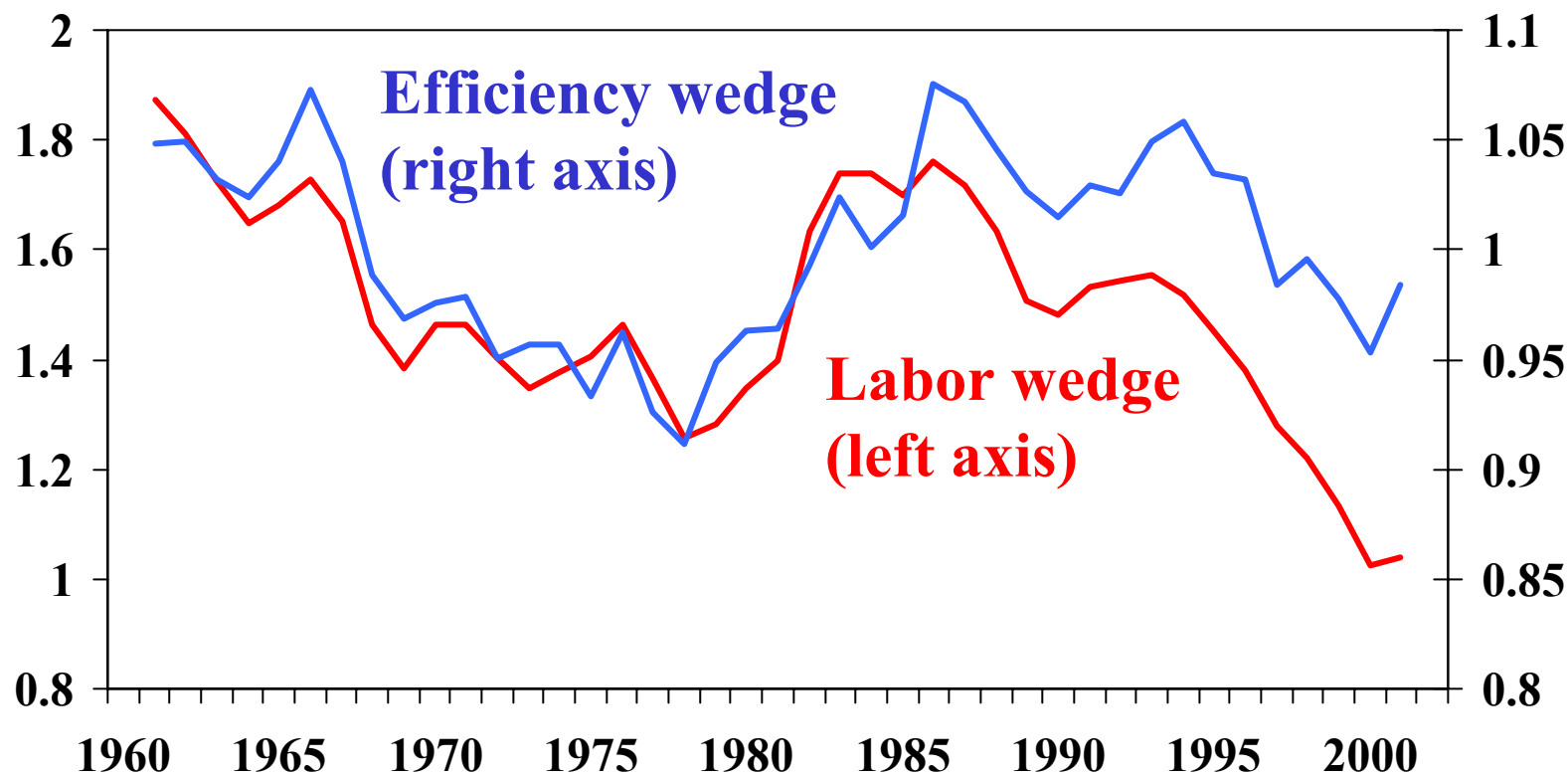
# Government debt



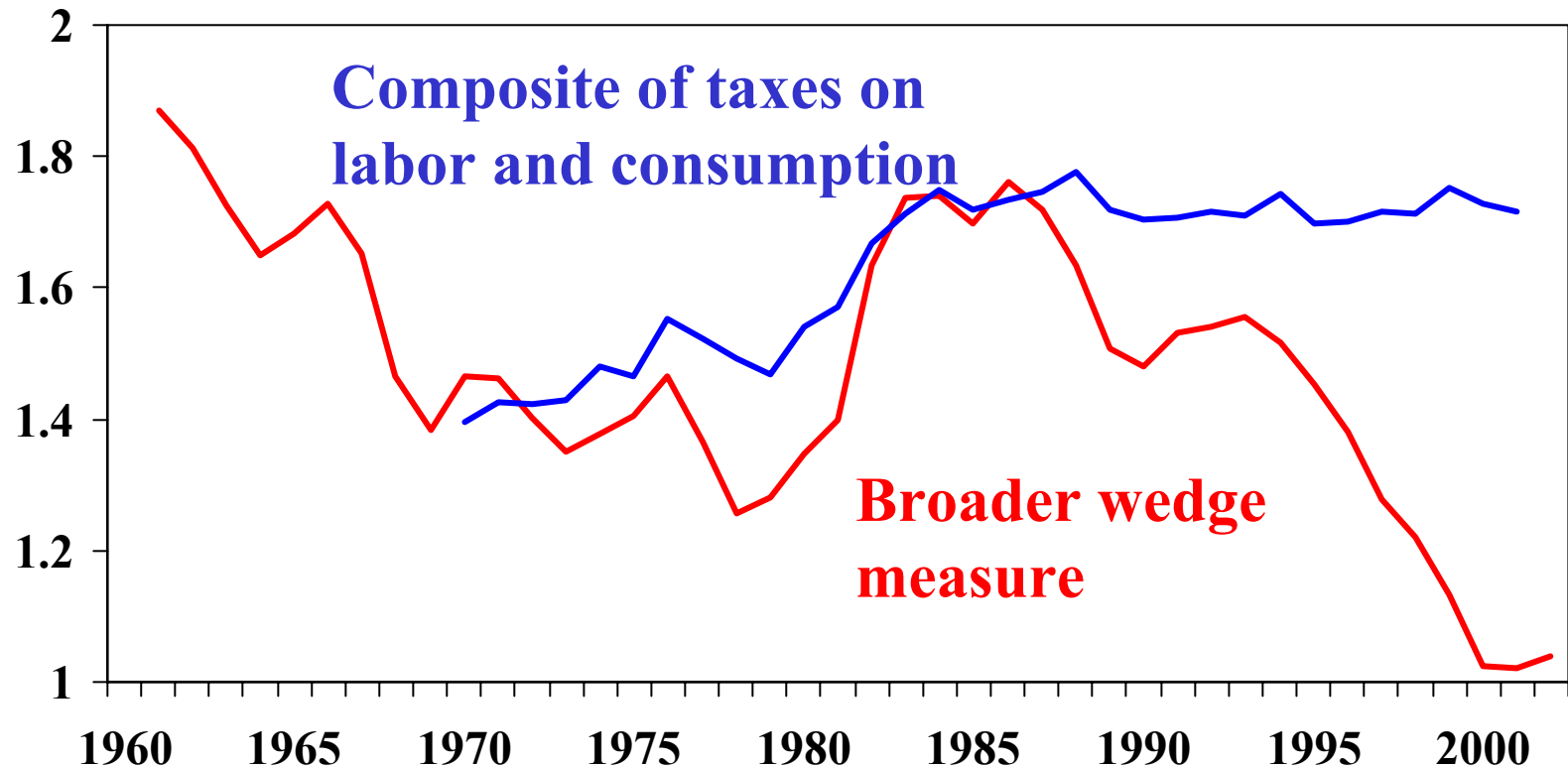
# Accounting for the Celtic Tiger in terms of distortions

- Example:
  - Willingness to sacrifice leisure to obtain additional consumption
  - Additional consumption attainable by working an extra hour

# Efficiency and labor wedges



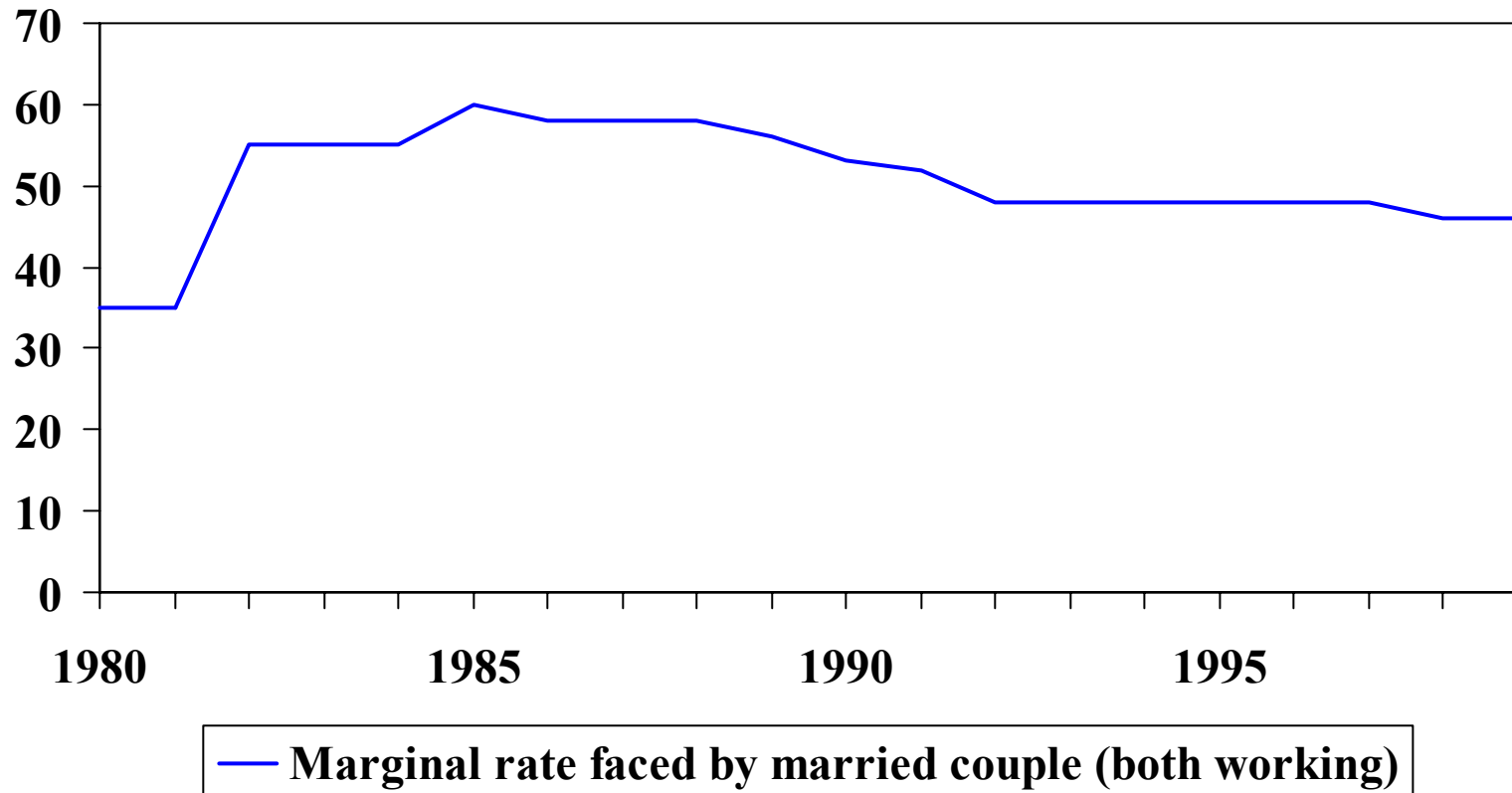
# Two estimates of “wedges”



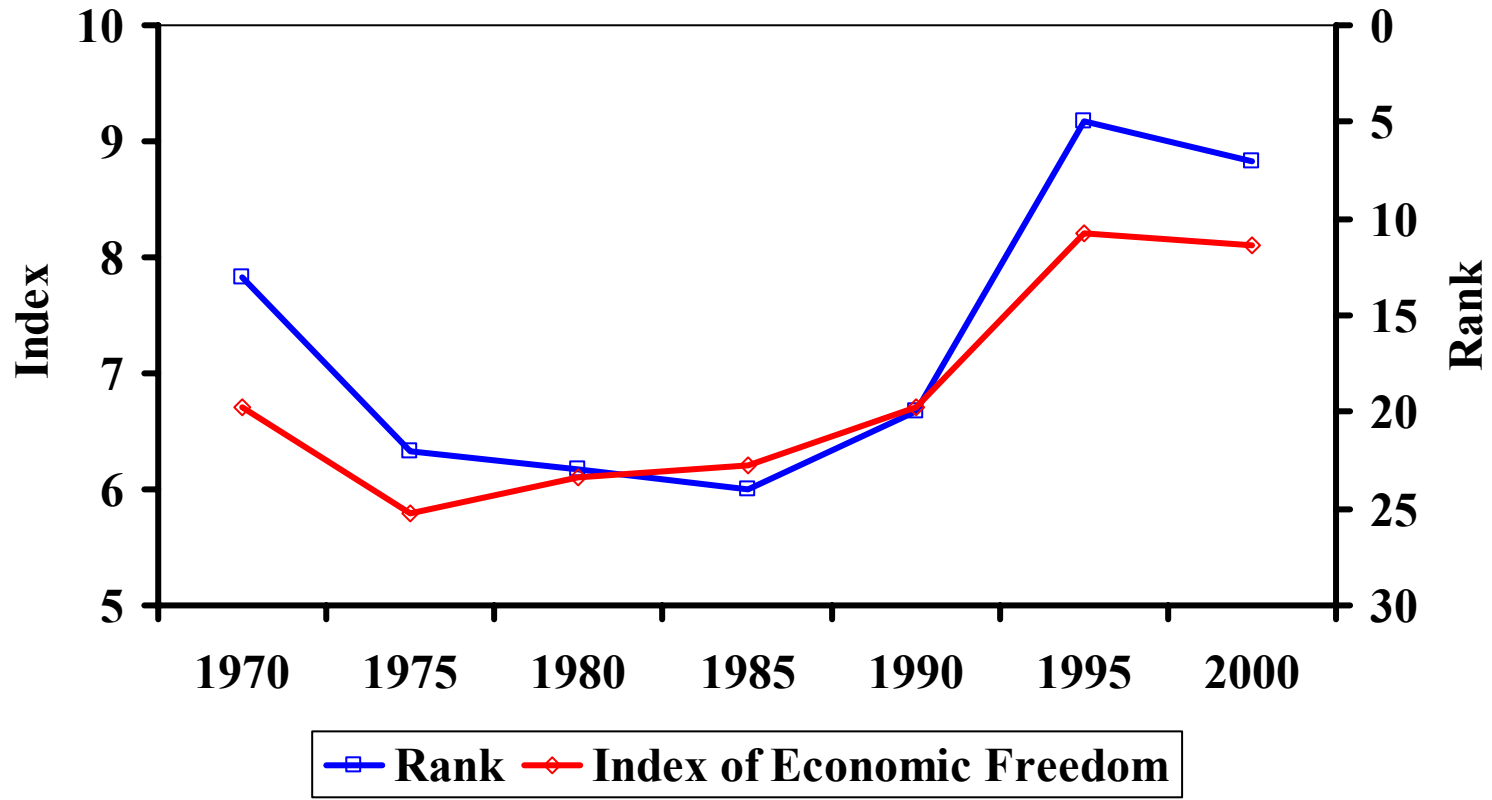
# The tax regime

- Favorable tax treatment of manufacturing firms
  - Important in attracting foreign direct investment
- Personal income tax rates
  - High by US standards but have come down in recent years

# Personal tax rates



# Trend towards more economic freedom in Ireland



# Rankings of economic freedom

1990

1. Hong Kong
2. Singapore
3. US
4. Switzerland
- .
- .
- .
- .
20. Ireland

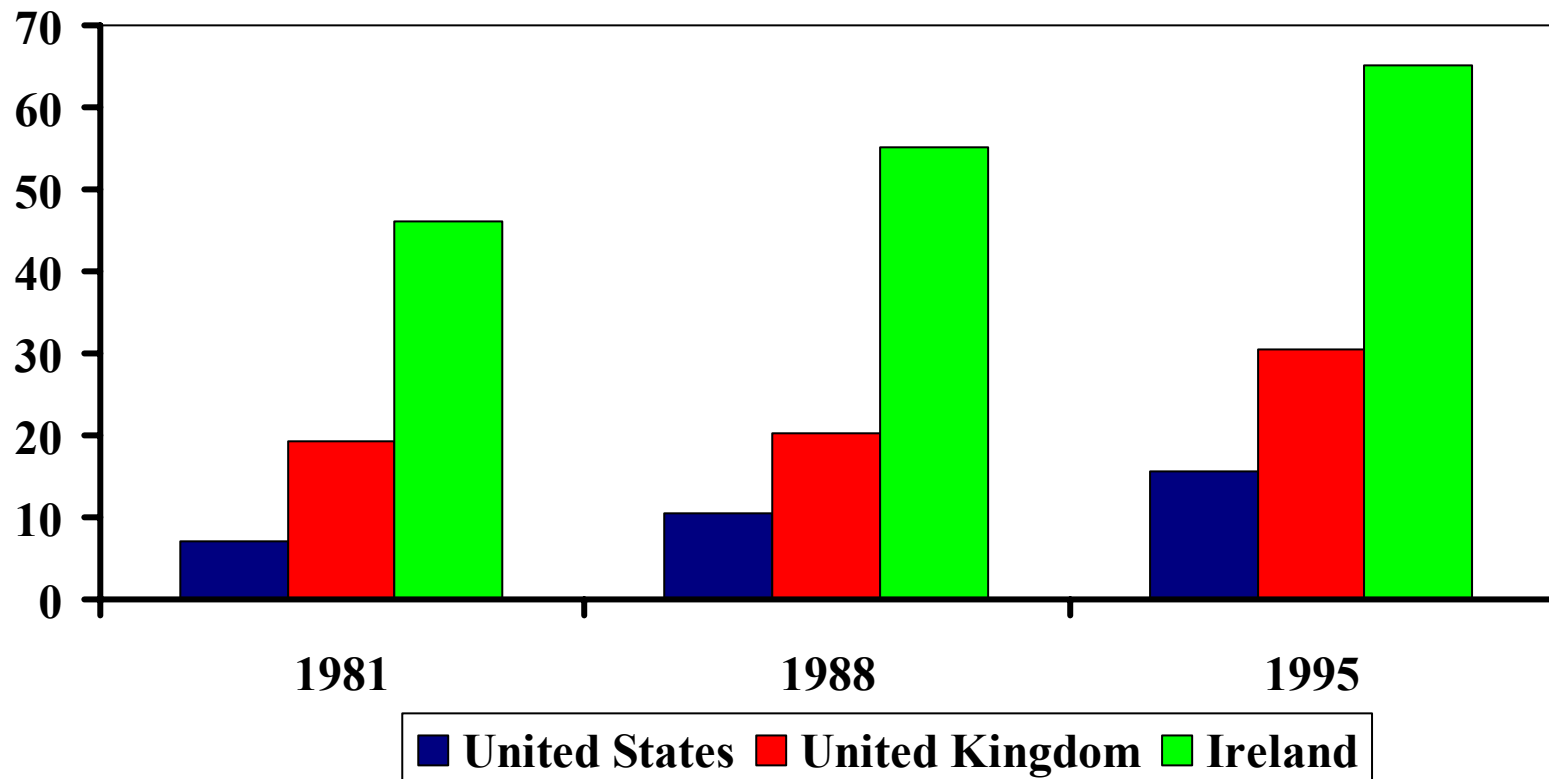
2002

1. Hong Kong
2. Singapore
3. United States
4. United Kingdom
5. New Zealand
- Switzerland
7. Ireland

# Foreign direct investment

- Barriers to FDI
  - Limits on foreign ownership
  - Screening requirements
  - Restrictions on foreign personnel & operational freedom
- OECD 2003 – Ireland has lowest barriers among all OECD countries (except UK)
  - Reduction in barriers since 1980 among the largest in all OECD countries

# Share of foreign affiliates in manufacturing production



# US firms operating in Ireland

- Dell
- Compaq
- Intel
- IBM
- Microsoft
- American Airlines

# Concluding observations

- Monetary stability
  - necessary but not sufficient
- Openness
  - crucial
- Economic freedom